
Lease Accounting Changes



Lease Accounting Changes

- ASC 842, Leases. Calendar year-end public business entities will need to adopt the new leases standard on January 1, 2019.
- Lessee accounting model Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease).
- The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs.
- For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance.
- Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases).
- All leases will be included on the balance sheet for lessees



Operational & System Impact



- What will change?
 - ❑ How lessees and lessors should classify and account for leases
 - ❑ When a lessee or lessor should reassess its lease classification
 - ❑ How lessees and lessors should account for modifications to a lease
- Likely that the accounting for existing leases will have to be revised upon transition.
- No leases will be grandfathered. Existing leases will likely require abstracting of lease details.
- Complexity of lease calculations will increase as more variables will have to be considered.
- Data will require aggregation from various sources not currently considered.
- More estimates and judgments will be required which will entail tighter auditing and tracking.
- There will be an ongoing need to review, reassess and possibly revise initial estimates.

ASC Topic 842

	Balance Sheet	Income Statement	Cash Flow Statement
Finance Lease	Asset – ROU Liability – Lease	Amortization Expense Interest Expense	Cash Paid for Principal + Interest
Operating Lease	Asset – ROU Liability – Lease	Straight-Lined Expense	Cash Paid for Lease Payments

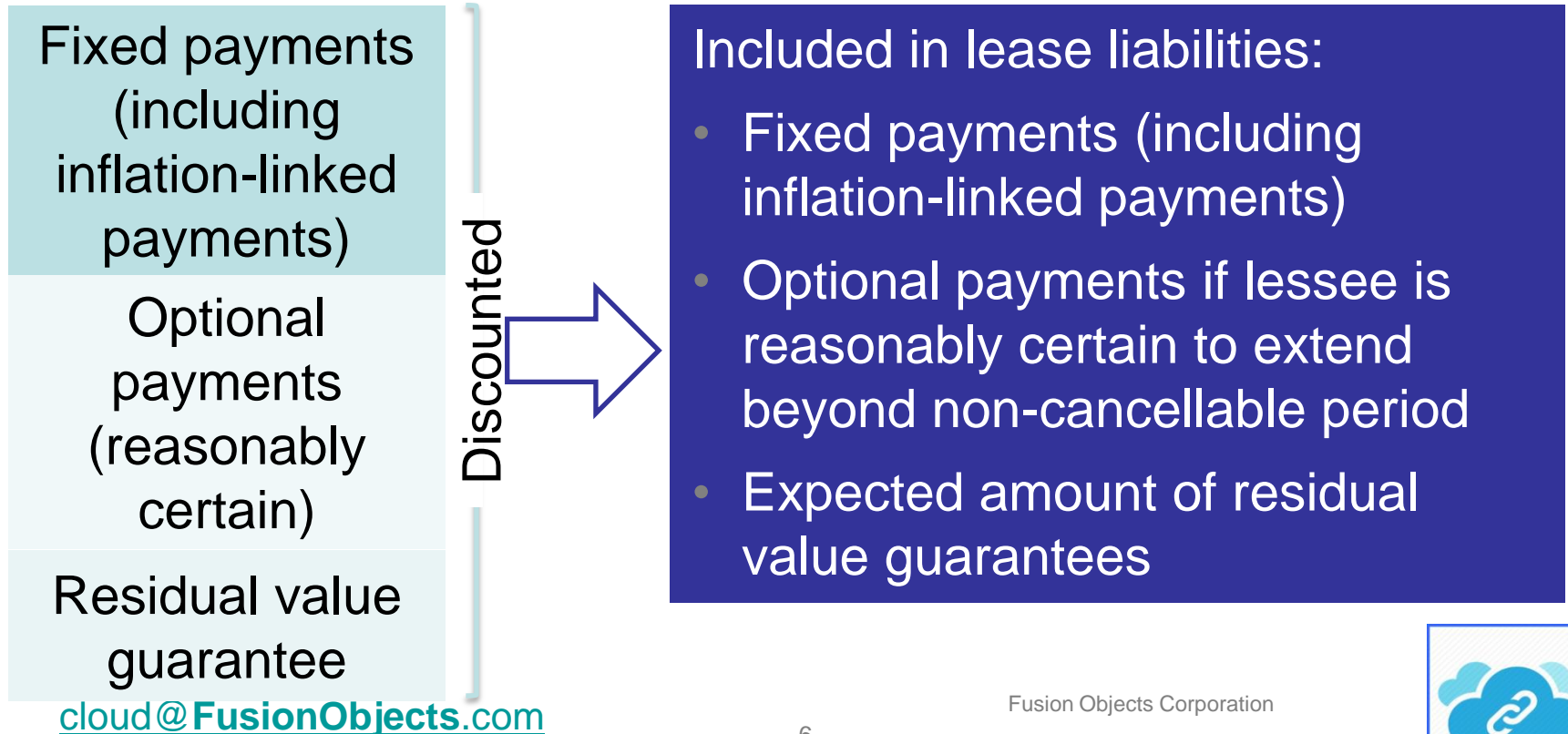
LESSEE ACCOUNTING : RIGHT-OF-USE MODEL

- A lease conveys the right to use an asset for a period of time in exchange for cash payments
- Lessee reports lease assets and liabilities on balance sheet, except for short-term and for low-value asset leases, at present value of future lease payments
- Discount rate: the rate implicit in the lease, or, if rate implicit not available, lessee's incremental borrowing rate
- Exclude variable payments and most optional payments
- Portfolio application, simplified reassessment

LESSEE ACCOUNTING

BALANCE SHEET: WHAT'S INCLUDED?

- Increase in lease assets and financial liabilities—all leases reported on balance sheet (other than short-term leases and leases of low-value assets)

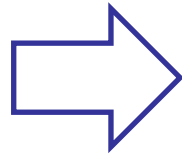


LESSEE ACCOUNTING

BALANCE SHEET: WHAT'S EXCLUDED?

Leases of low-value assets

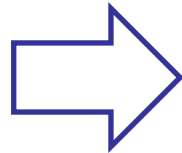
Short-term leases



Not required to be included in lease liabilities

Variable lease payments linked to sales or use

Optional payments (not reasonably certain)



Excluded from lease liabilities

LESSEE ACCOUNTING

SUBSEQUENT MEASUREMENT

- Right of Use (ROU) Asset
 - Balance sheet presentation separately as an asset
 - Depreciated over the life of the lease
 - Depreciation carried in profit and loss
 - Reassessed for impairment
- Liability
 - Balance sheet presentation separately as a liability
 - Interest expense through profit and loss as interest
 - Simplified reassessment

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Have a Question????

Reach us out at

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